



STATE OF UTAH INSURANCE DEPARTMENT

REPORT OF FINANCIAL EXAMINATION

of

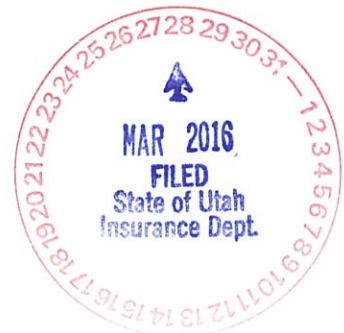
EDUCATORS MUTUAL INSURANCE ASSOCIATION

of

Murray, Utah

as of

December 31, 2014



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February 26, 2016

**SALUTATION**

Honorable Todd E. Kiser, Commissioner  
Utah Insurance Department  
3110 State Office Building  
Salt Lake City, Utah 84114

Commissioner:

Pursuant to your instructions and in compliance with statutory requirements, an examination, as of December 31, 2014, has been made of the financial condition and business affairs of:

**EDUCATORS MUTUAL INSURANCE ASSOCIATION**  
Murray, Utah

hereinafter referred to in this report as the “Association” or “EMIA” and the following report of examination is respectfully submitted.

**SCOPE OF EXAMINATION**

The last financial examination of the Association was completed as of December 31, 2011. The current examination is a full scope examination covering the period from January 1, 2012 through December 31, 2014, including any material transactions or events occurring subsequent to the examination date and noted during the course of the examination.

The purpose of this examination is to assess the financial condition of the Association and its holding company system. The examination was conducted by representatives of the Utah Insurance Department (“Department”) at the Association’s administrative office in Murray, Utah, which is the primary location of the Association’s books and records.

We conducted our examination in accordance with the risk-focused examination approach as prescribed by the National Association of Insurance Commissioners (“NAIC”) *Financial Condition Examiners Handbook* (“Handbook”). The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Association by obtaining information about the Association’s corporate governance, identifying and assessing inherent risks within the Association, and evaluating internal controls, policies, and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management’s compliance with Statutory Accounting Principles and annual statement instructions, when applicable to domestic state regulations.

Workpapers of the Association's independent auditor, Larson & Company, were reviewed and relied upon whenever possible and applicable to assist in the completion of examination procedures.

## **SUMMARY OF SIGNIFICANT FINDINGS AND RECOMMENDATIONS**

There were no significant findings for inclusion in the examination report.

## **ASSOCIATION HISTORY**

### General

EMIA was organized on June 26, 1935, as a non-profit mutual benefit association. The Utah Education Association, an organization of Utah educators, sponsored and participated in the creation of the Association in order to provide insurance protection to educators. The Association's original name was Utah Teachers Welfare Association. The name was changed to its present name on October 7, 1965.

The Association's legal name as filed with the Utah Division of Corporation was Educators Mutual Insurance Association of Utah, "doing business as" EMI Health. The name as filed with the Utah Insurance Department was Educators Mutual Insurance Association. The Association is in the process of removing the "of Utah" from the Division of Corporation's file.

The Association operates under Utah Code Annotated (U.C.A.) § 31A-5-108, and is currently authorized to transact life, annuity, and accident and health lines of insurance products.

### Dividends and Capital Contributions

In December 2014, the Association contributed \$7.5 million to its subsidiary, Educators Health Plans Life, Accident & Health, Inc. ("EHPL") No policyholder dividends were declared or paid during the period of this examination.

### Mergers and Acquisitions

During the November 10, 2012 Board of Directors meeting, the board voted unanimously to dissolve Educators Health Plans Health, Inc., and Educators Health Care. Services and insurance coverage provided by Educators Health Care were transferred to EMIA. Services and insurance coverage provided by Educators Health Plans Health, Inc. were transferred to EHPL. Plans of Orderly Withdrawal were approved by the Department on July 18, 2013.

## **MANAGEMENT & CONTROL INCLUDING CORPORATE GOVERNANCE**

### Board of Directors

The Association's bylaws indicated that the number of Directors may not be less than five (5) or more than fifteen (15). Eleven (11) directors were elected by members of the Association. The elected directors appointed independent four (4) board members.

The following persons served as directors of the Association as of December 31, 2014:

<b>Name and Location</b>	<b>Title and Principle Occupation</b>
Wallace Gerald Harmer Salt Lake City, UT	Appointed Member (Chair) Retired-Business Administration & CPA
Michael R. Evans Fillmore; UT	Elected Member (Vice Chair) IT Teacher, Millard School District
James Clarke Fontaine Salt Lake City, UT	Appointed Member Retired CFO- Deseret Mutual Benefit Administrators
Michael Rell Francis Orem, UT	Elected Member Finance- Utah Valley University
Richard Paul Gottfredson Ephraim, UT	Elected Member Business Administrator- South Sanpete School District
Dr. Steven Kay Hirase Riverton, UT	Elected Member Superintendent- Murray City School District
Sara Ann Jones South Jordan, UT	Elected Member Director of Education Excellence and Government Relations- Utah Education Association
Lisa Nenti-Bloom; Murray, UT	Elected Member Executive Director- Utah Education Association
Starleen Orullian Salt Lake City, UT	Elected Member Executive Director- Granite Education Association
Jerad Arthur Reay Bear River City, UT	Elected Member; President- Utah School Employees Association
Randy Reid Smart Sandy, UT	Appointed Member Attorney- Smart- Schofield, Shorter & Lunceford
Bryan Lee Sprague West Valley City, UT	Elected Member Executive Director- Utah School Employees Association
Scott Charles Thornton Centerville, UT	Appointed Member Actuary- Deseret Mutual Benefit Administrators
Elaine Tzourtzouklis Salt Lake City, UT	Elected Member UniServ Director- Wasatch UniServ
Delora L. Wight Laketown, UT	Elected Member Teacher- Rich School District

### Officers

Officers as of December 31, 2014 were as follows:

<b>Name</b>	<b>Title</b>
Steven Charles Morrison	President and Chief Executive Officer
David Ryan Lowther	Secretary and Chief Operating Officer
Michael Wayne Greenhalgh	Treasurer and Chief Financial Officer
Joseph Howard Campbell	Vice President
Tiffany Bermingham	Vice President
Brandon Lee Smart	Vice President
Cynthia Tovey	Vice President
Christie Lynn Hawkes	Vice President
David Scott Wood	Vice President

### Committees

The following committees were in place as of December 31, 2014:

<b>Audit Committee</b>	<b>Finance &amp; Risk Management Committee</b>
Michael Rell Francis (Chair)	James Clarke Fontaine (Chair)
Wallace Gerald Harmer	Michael R. Evans
Starleen Orullian	Sara Ann Jones
Jerad Arthur Reay	Bryan Lee Sprague
Elaine Tzourtzouklis	Scott Charles Thornton

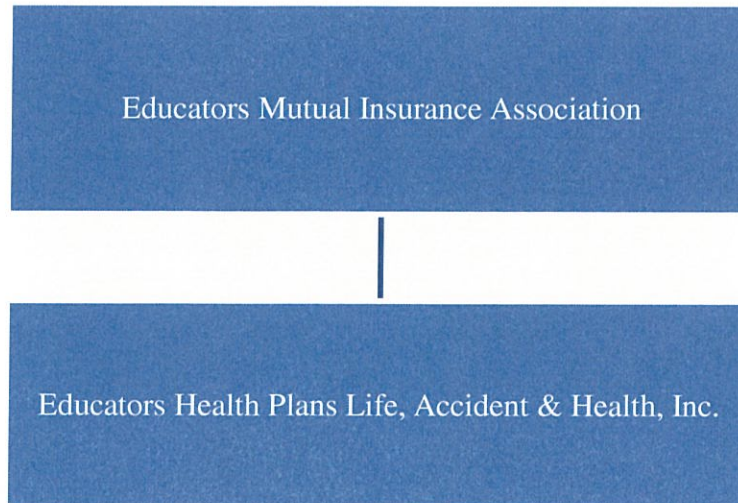
<b>Executive Committee</b>	<b>Marketing &amp; Legislative Committee</b>
Wallace Gerald Harmer (Chair)	Richard Paul Gottfredson (Chair)
Michael R. Evans	Dr. Steven Kay Hirase
Michael Rell Francis	Mark Drew Mickelsen
James Clarke Fontaine	Randy Reid Smart
Richard Paul Gottfredson	Delora L. Wight
Steven Charles Morrison	

### Holding Company

The Association is part of a holding company system as defined in U.C.A. § 31A-16. The Association owns 100% of stock of Educators Health Plans Life, Accident & Health, Inc., a for-profit entity created for the purpose of offering similar insurance products to other than educational employer groups.

### Holding Association Organizational Chart

The organizational chart below reflects the current holding company structure.



### Transactions and Agreements with Affiliates

The Association entered into a Management Agreement with EHPL effective February 1, 2006. The agreement was approved by the Department on May 15, 2006. The agreement listed services provided by EMIA, which included, but are not limited to, marketing, administrative services, accounting, financial reporting, enrollment, and claims. The agreement indicated the fees, in exchange for the services provided, was 15% of the premium and service income generated by EHPL.

The agreement was amended in February 1, 2009. The amendment was approved by the Department on February 19, 2009. The amendment was added to also include fees for indirect expenses incurred by EMIA.

## **TERRITORY AND PLAN OF OPERATION**

As of December 31, 2014, the Association was licensed in Utah and Idaho.

The Association offers a full range of fully insured and self funded medical plans. A wide array of self-funded benefit options have been created for this pool, individuals employer groups. The Association also offers COBRA administration at no additional cost for members electing the medical plan.

A self-funded pool has distinct advantage. Groups will be able to have rates based on particular demographics and claims experience rather than the overall state average. In addition, groups will have the opportunity to assist in the management of their plans

including reviewing claims experience and utilization, and discussing plan design changes.

Also available to members are Medicare Part D and Medigap. Medigap is a health insurance policy designed to fill the gaps in members' medical plan. Medigap policies help members pay some of the health care cost that the original Medicare plan does not pay.

In addition to medical, the Association also offers various Dental and Vision plan options, as well as group term life insurance, and supplemental group term life insurance.

## **REINSURANCE**

### Assumed

The Association did not have any assumed reinsurance as of the examination date.

### Ceded

As of the examination date, the Association had a reinsurance contract with Munich Reinsurance America, Inc. ("Munich"). Effective September 1, 2014 through September 1, 2015, the following arrangement with Munich was in place:

<b>Layer</b>	<b>Retention</b>	<b>Reinsurer's Limit of Liability</b>
	Ultimate Net Loss in Respect of each Claim Incurred, each Covered Person	In Respect of each Claim Incurred, each Covered Person
First Excess	\$500,000	\$1,500,000
Second Excess	\$2,000,000	\$8,000,000

The Association renewed the contract with Munich effective September 1, 2015 through September 1, 2016 with the same terms.

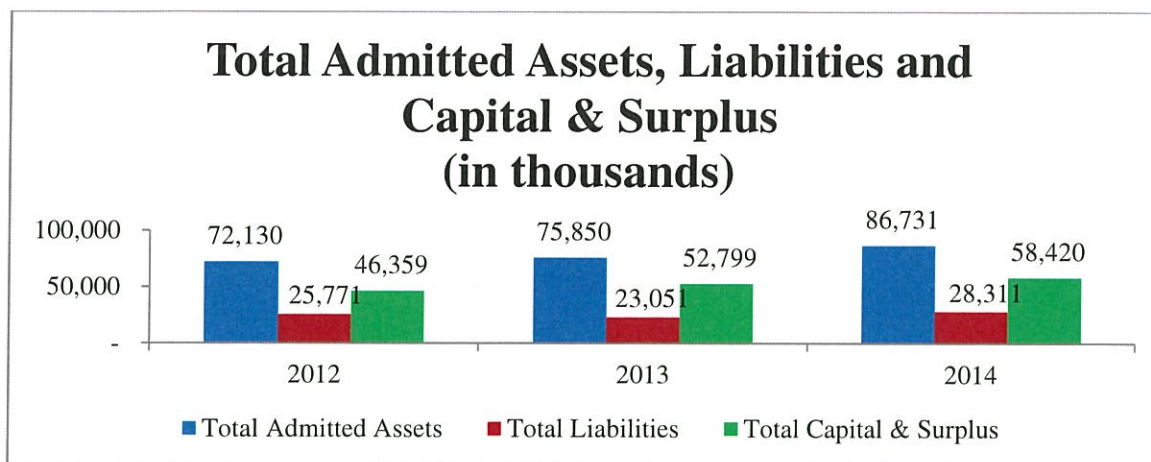
## **GROWTH OF ASSOCIATION**

The Association's 2014 total revenues decreased approximately 8% compared to 2013. Total revenues earned during 2013 and 2012 were comparable. The decrease may be the result of groups changing from fully-insured plans to self-funded plans.

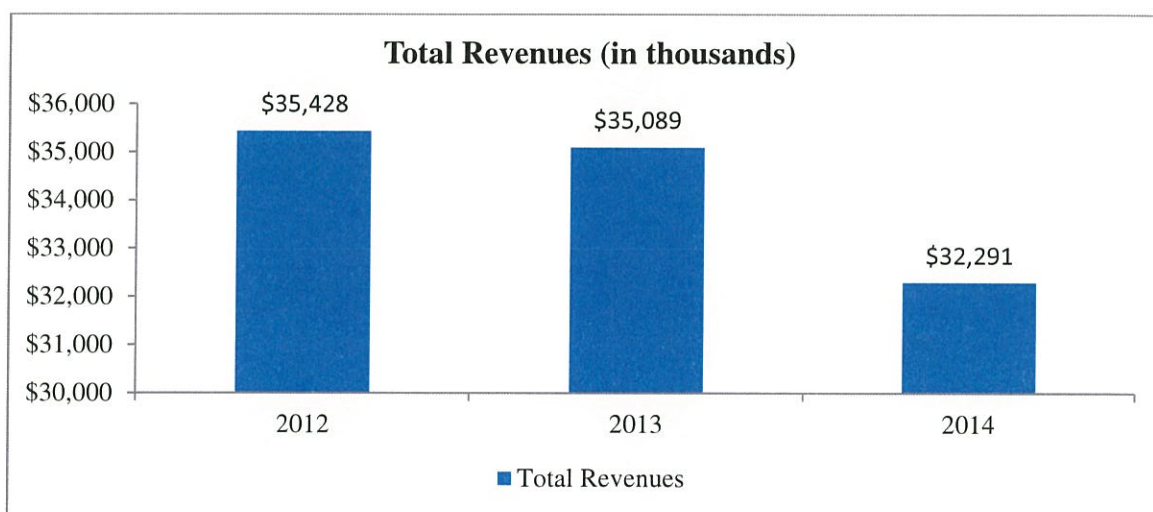
The Association's total assets and capital and surplus have been steadily increased during the examination period.



See the following graphs.



Source: 2014 Annual Financial Statement



Source: 2014 Annual Financial Statement

### MORTALITY AND LOSS EXPERIENCE

The examination actuary reviewed the Association's mortality and loss experience, as well as pricing and underwriting practice. The examination actuary concluded that the Association's reserve methodology and assumptions were reasonable. No significant deficiency was noted in the Association's unpaid claims and other actuarial liability reserves.

## **ACCOUNTS AND RECORDS**

The Association's accounting systems were maintained on a local area network. The basic accounting records and supporting documentation provide a verifiable audit trail.

Larson & Company, an independent certified public accounting firm, audited the Association's records during the period covered by this examination. Audit reports generated by the auditors for the years 2012 through 2014 contained unqualified opinions and were made available for the examiners' use.

An Information Technology (IT) Specialist performed a review of the Association's IT system controls for purposes of reliance by the examiners. The IT Specialist prepared a separate assessment report, which was incorporated into the examination workpapers.

## **FINANCIAL STATEMENTS**

The following financial statements are based on the statutory financial statements filed by the Association with the Department and present the financial condition of the Association for the period ending December 31, 2014. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements.

EDUCATORS MUTUAL INSURANCE ASSOCIATION  
ASSETS  
as of December 31, 2014

	Net Admitted Assets
Bonds	\$ 38,896,114
Preferred stocks	1,409,406
Common stocks	12,504,838
Properties occupied by the company	1,505,529
Cash and short-term investments	26,584,103
Subtotals, cash and invested assets	80,899,990
Investment income due and accrued	465,588
Uncollected premiums and agents' balances	1,510,906
Accrued retrospective premiums	44,710
Amounts recoverable from reinsurers	693,313
Amounts receivable relating to uninsured plans	2,327,069
Electronic data processing equipment and software	133,132
Receivables from parent, subsidiaries and affiliates	510,473
Health care and other amounts receivable	146,044
Total assets	\$ 86,731,225

EDUCATORS MUTUAL INSURANCE ASSOCIATION  
LIABILITIES, CAPITAL AND SURPLUS  
as of December 31, 2014

Liabilities

Claims unpaid (less \$97,319 reinsurance ceded)	\$ 3,698,219
Unpaid claims adjustment expenses	109,646
Aggregate health policy reserves	3,404,820
Aggregate life policy reserves	759,734
Aggregate health claim reserves	378,096
Premiums received in advance	55,527
General expenses due or accrued	2,568,457
Ceded reinsurance premiums payable	128,487
Amounts withheld or retained for the account of others	431,563
Remittances and items not allocated	186,741
Liability for amounts held under uninsured plans	13,880,253
Aggregate write-ins for other liabilities	2,709,581
Total liabilities	\$ 28,311,124

Capital and Surplus

Unassigned funds	58,420,101
Total capital and surplus	\$ 58,420,101
Total liabilities, capital and surplus	\$ 86,731,225

EDUCATORS MUTUAL INSURANCE ASSOCIATION  
STATEMENT OF REVENUE AND EXPENSES  
For the fiscal year ended December 31, 2014

Member months	<u>872,347</u>
Net premium income	\$ 31,883,107
Aggregate write-ins for other health care related revenues	178,819
Aggregate write-ins for other non-health revenues	<u>229,747</u>
Total revenues	32,291,673
Hospital and Medical:	
Hospital/medical benefits	4,024,376
Other professional services	17,725,730
Outside referrals	681,600
Emergency room and out-of-area	133,044
Prescription drugs	<u>1,989,582</u>
Subtotal	24,554,332
Less: Net reinsurance recoveries	<u>2,140,269</u>
Total hospital and medical	22,414,063
Non-health claims	31,700
Claims adjustment expenses	646,722
General administrative expenses	1,730,857
Increase in reserves for life and accident and health contracts	<u>1,423,843</u>
Total underwriting deductions	26,247,185
Net underwriting gain or (loss)	6,044,488
Net investment income earned	1,740,646
Net realized capital gains (losses) less capital gains tax	<u>16,825</u>
Net investment gains (losses)	1,757,471
Net income or (loss) before federal income taxes	7,801,959
Federal income taxes	<u>1,057</u>
Net income or (loss)	\$ <u>7,800,902</u>

EDUCATORS MUTUAL INSURANCE ASSOCIATION  
RECONCILIATION OF CAPITAL AND SURPLUS  
2012 through 2014

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>Note</u>
Capital and surplus prior reporting year	\$ 41,002,714	\$ 46,359,106	\$ 52,799,569	
Net income (loss)	1,675,799	4,078,963	7,800,902	
Change in net unrealized capital gains (losses) less capital gains tax	595,295	881,571	(2,134,888)	
Change in non-admitted assets	(360,448)	359,653	360,095	
Change in asset valuation reserve	(404,300)			
Cumulative effect of changes in accounting principles	0	(535,841)	0	
Aggregate write-ins for gains & losses in surplus	<u>0</u>	<u>1,656,117</u>	<u>(405,577)</u>	
Change in capital and surplus	1,506,347	6,440,463	5,620,532	
Adjustment due to merger	<u>3,850,045</u>	<u>0</u>	<u>0</u>	(1)
Capital and surplus end of reporting year	<u><u>46,359,106</u></u>	<u><u>52,799,569</u></u>	<u><u>58,420,101</u></u>	

## **ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS**

No financial adjustments were made to surplus as a result of the examination.

## **COMMENTS ON FINANCIAL STATEMENT ITEMS**

Note (1): Upon the dissolution of Educators Health Care, all assets were transferred to EMIA resulted in an increase to the Association's capital and surplus in the amount of \$3,550,046, bringing EMIA's 2012 total capital and surplus to \$46,359,106.

The Association's capital and surplus in the amount of \$58,420,101 was determined to be the same as that reported in the Association's annual statement as of December 31, 2014. The capital and surplus significantly exceeded the authorized control level risk-based capital.

## **SUBSEQUENT EVENTS**

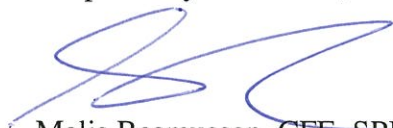
In 2015, Corey Callahan, Payroll Director of Utah Valley University, became a member of the Board of Directors and Finance & Risk Management Committee.

In July 2015, the Association changed its investment manager to JP Morgan, which was chosen via a thorough selection process.

## **ACKNOWLEDGEMENT**

T. Michael Presley, FSA, MAAA, of AGI Services, Inc., and John B. Humphries, ASA, MAAA, CFE, CISA, AES, MCM, of AGI Services, Inc., performed the actuarial review portion of the examination. Tracy D. Gates, CISA, CPA, CFE, of Highland Clark, performed the information technology review. Donald Catmull, CFE, Assistant Chief Examiner, supervised the examination. In addition, James Borrowman, AFE; and Shane Sadler, AFE; of Utah Insurance Department, participated in the examination. They join the undersigned in acknowledging the assistance and cooperation extended during the course of the examination by officers and representatives of the Association.

Respectfully Submitted,



Malis Rasmussen, CFE, SPIR  
Examiner-in-Charge  
Utah Insurance Department